EXHIBIT 11

HARD TO SWALLOW:

Do Private Food Service Contractors Shortchange New Jersey Schools?

By Tom MacDermott
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Executive Summary

Though public schools traditionally managed their own cafeterias, in recent years there has been a marked rise in the use of private food service management companies (FSMCs). This industry, dominated by corporations like Sodexo, Inc., Compass Group, and Aramark Corp., promise to increase the efficiency of food service and delivery, thereby saving money for cash-strapped schools.

While the switch from school-run food programs to FSMCs has been a growing national trend, New Jersey has been well ahead of the curve. According to a recent study, 64 percent of New Jersey school districts outsource food service to private contractors, the second highest rate in the nation.[1] A survey of New Jersey school superintendents in 1997 found that 83 percent of respondents identified saving money as a "very important" consideration when they switched to FSMCs.[2]

In light of the economic recession, ensuring that school dollars are used effectively has never been more critical. But are there hidden costs when New Jersey Public School Districts outsource their food services? To answer this question, SEIU Local 32BJ commissioned Clarion Group, a consulting firm that researches food service issues, to analyze contracts and financial data provided by ten school districts that outsource their food services to either Sodexo or Chartwells (a division of Compass). Of the ten districts, five contract with Sodexo and five with Chartwells.[3]

Our study's findings—of overcharges for insurance, the withholding of rebates, and questionable bidding practices—are explained in further detail below.

1. Charges for Workers Compensation and Liability Insurance May Represent Hidden Profits for Sodexo and Chartwells

Sodexo and Chartwells charge school districts for their workers compensation and liability insurance costs; however, it appears that these charges exceed the actual cost of obtaining insurance. For three school districts where we were able to obtain current information, Chartwells overcharged the school districts a total of $51,979 for workers compensation insurance. We don't know the precise cost of liability insurance – and Sodexo combines the two types of insurance in its financial statements – so we can only estimate the total of the overcharge amount. For the ten school districts, the estimate of total insurance overcharges comes to nearly $320,000 – money that could have been used to purchase more than 4,600 new elementary school math textbooks.[4] It bears repeating that this substantial savings comes solely from the ten districts analyzed. If the approximately 378 New Jersey school districts using FSMCs are also being overcharged at the same rate, the total amount of taxpayer money being misappropriated would come to $12 million, *or enough to pay the annual salaries of 186 New Jersey teachers.*[5]

2. Despite Federal Law, Sodexo Withholding Rebate Money Due Districts

Because of their high-volume purchasing, large FSMCs receive rebates, discounts, and other benefits from food suppliers. Beginning with the 2009-2010 school year, the US Department of Agriculture's Food and Nutrition Service required FSMCs to pass these savings along to the districts when participating in the free and reduced lunch program. In two districts contracted with Sodexo—Piscataway and Long Branch—the FSMC is permitted to retain a portion of these savings that Sodexo says is attributable to "prompt payment discounts," although federal regulations clearly state "all costs to the [school food service] program be net of applicable discounts, rebates, and applicable credits."[6] This clause in the contract creates a loophole that Sodexo can exploit and strips much-needed money from districts.

3. School Districts Discourage Competitive Bidding

In the ten New Jersey districts, all competitive RFP processes resulted in the incumbent retaining its contract, raising immediate questions about whether the bidding

process is truly competitive. Additionally, in some cases the terms of the renewed contract were more favorable to the incumbent FSMC than the terms of the request for proposal (RFP). Some examples include:

- West Orange issued an undated 45-page RFP for the 2009-2010 school year that required bidders to attend a tour of the district's food service facilities on Thursday, June 25 and submit proposals three business days later, on Tuesday, June 30—for a contract that began the following day.
- When Bergenfield renewed its contract with Chartwells for the 2008-09 school year after receiving proposals from two other companies, it allowed Chartwells to more than double its fee from ten cents per meal in its proposal (the low bid) to 21 cents per meal (higher than the other two bids).
- Edison's RFP for the 2008-09 school year received only one response, from Chartwells. The $250,000 performance bond required in the RFP was not included in the contract with Chartwells, and the requirements for a guaranteed profit to the district and insurance coverage were reduced from that of the RFP.
- Piscataway, Marlboro, and Edison failed to follow guidelines issued by the New Jersey Department of Agriculture, which states that districts should "allow a minimum of 45 days for the FSMC to submit a proposal [beginning] when the FSMC receives the request, not when the RFP is advertised or sent out." [7]

The Road to Reform

Serving meals to students in school has become a big business. Even medium-sized districts like Edison serve nearly two million meals a year and have food service budgets of three to four million dollars. Companies like Sodexo and Chartwells are attracted by the lure of fees that can exceed $300,000 a year, along with opportunities to generate even more profits in ways that are not always apparent to the districts they serve.

In a time of tightened budgets, New Jersey School Districts need every dollar owed to them. Below are five measures that should be immediately taken towards that end.

1. Districts should require the FSMC to provide specific proof (such as invoices) that the charge to the district for liability insurance is only for actual cost.
2. The amount chargeable for workers compensation insurance should be reported separately from other types of insurance on the FSMC's financial statements and be limited to the actual cost to the FSMC. This cost can be found on the New Jersey Compensation Rating and Inspection Bureau website, http://www.njcrib.com.
3. The State should enforce the federal requirement that school districts cannot adopt FSMC-prepared contracts and should ensure that FSMCs are not permitted to increase the fees quoted in their proposals or change essential RFP requirements, such as bonds and insurance limits. The State also should adopt and enforce the federal recommendation that FSMCs should not be permitted to "assist in finalizing the contract provisions after the successful offeror has been identified."
4. Among the documents reviewed were several FSMC self-administered operational performance and food safety audits. Unsurprisingly, these found no deficiencies and required no remedial actions. The State should require that operational, food safety and financial audits should be administered by an independent professional firm, contracted and paid by, and reporting only to, the State to ensure there is no influence on the auditor by the FSMC.
5. The State should enforce its own standards regarding the RFP process. In particular, the State should ensure that each school district allows enough time for non-incumbents to submit bids.

References

1 Michael D. LaFaive, "A School Privatization Primer," Mackinac Center for Public Policy, pp. 10 and 14. The national average for school districts, by comparison, is only 13 percent.

2 Kenneth P. May, "An Investigation into the Role of the Privatization of Non-Instructional Services Provided by New Jersey Public School Districts" (Ed.D. diss., Seton Hall, 1998), cited in "A School Privatization Primer," p. 16.

3 The districts analyzed using Sodexo are: Long Branch, Piscataway, Southern Regional, W. Windsor-Plainsboro, and West Orange. The districts using Chartwells are: Bergenfield, East Windsor, Edison, Hamilton, and Marlboro.

4 Prices for math textbooks based on Houghton Mifflin's 2007 Math Series, which cost $62.75 per book, with an additional 10 percent included for shipping.

5 There are 591 operating school districts in New Jersey (http://www.state.nj.us/education/data/fact.htm), of which recent data shows 64% outsource their food services, or approximately 378. According to the National Education Association, the average salary for NJ public school teachers is $64,809 for 2009-2010 (http://www.nea.org/assets/docs/010rankings.pdf, p. 110).

6 Federal statute 7CFR210.21

7 NJ Dept of Agriculture department of Food and Nutrition guidelines for "Contracting for School Food Service" (Handout #355, January 2010)

New Jersey School District Documents Reviewed

District	RFP	Contract	Proposals	Financial Stmt.
Chartwells				
Bergenfield	FY 09	FYs 09 & 10	Aramark, Chartwells and Pomptonian (1st page only)	Chartwells statements not provided
East Windsor	FY 10	FY 09	Chartwells Nu-Way	FY 09 statement
Edison	FY 09	FY 09	None provided	FYs 07 & 08
Hamilton	FY 10	FY 10	FY 09	FY 08 & Jul-Jan 09
Marlboro	FY 10	FY 10	None provided	FY 07 & 08
Sodexo				
Long Branch	FY 10	FY 09 & 10	Chartwells Sodexo	FY 08
Piscataway	FY 10	FY 10	Aramark (partial) Metz & Co. Sodexo	FY 08 & FY 09 Summaries only
Southern Regional	FY 07	FY 06 & 09	None provided	FY 08
W. Orange	FY 10	FY 10 (redacted)	None provided	Summary only
W. Windsor-Plainsboro	FY 10	FY 07 & !0	Aramark Chartwells Pomptonian Sodexo	FY 07, 08, 09

Notes to above schedule:

All dates shown are for the school districts' fiscal years ending on June 30. Summer program operations are not included in any of the documents reviewed.

RFP: Request for Proposals, sent by a school district to food service management companies (FSMC) to submit proposals to manage the district's school food service program.

Contract: The agreement between the school district and the FSMC for the management of the school food service program for a fiscal year of July 1 to June 30.

Proposal: A FSMC's proposal submitted in response to a district's RFP.

Budget: A FSMC's budget or forecast for the financial performance of a food service program for the next fiscal year.

Financial Statement: The statement of income, expenses and profit or loss submitted to the district by the FSMC.

Full Report

This report covers school nutrition programs at ten New Jersey public school districts that retain food service management companies (FSMCs), identifying and commenting upon the processes the districts used to select the FSMCs, their contractual arrangements, and the financial results of the companies' performance in each district.

Five of the districts reviewed retain Chartwells School Dining, a division of Compass Group PLC, a Great Britain-based food service contractor, and five districts retain Sodexo Management, Inc., a subsidiary of Sodexo Alliance, headquartered in France. Both companies operate in multiple markets globally and are public companies in their respective home countries. Public school nutrition services are a minor but profitable segment of their total businesses, with the potential to earn substantial administrative and management fees.

Documents reviewed were provided by school districts in response to requests made under New Jersey's Open Public Records Act. Not every district provided all the documents requested. (See chart on facing page.)

Food service companies are for-profit enterprises. Their purpose is to provide specialized services that their client, school district, college, company or institution, can't (or doesn't want to) provide on its own with its employees. The FSMCs' tell their clients, "We can do it better than you can, and for less." Sometimes this is true, especially if the internally-operated service is poorly managed. Often, the FSMC is simply taking a headache, or "non-core" function off the client's hands.

In theory, the FSMC offers a school district these advantages:

- It has the organization, operating and financial systems, marketing/merchandising programs and skilled, experienced personnel to provide a better service than can the individual manager employed by the district.
- National FSMCs have huge buying power and are able to negotiate prices for food and other products the individual district can't obtain on its own.
- Their labor costs are lower than the typical districts.
- They can offer investments to upgrade facilities and purchase new equipment for the districts. Sometimes they offer college scholarships and other financial inducements to win or retain a district's contract.

On the first point, it is true that only a very innovative, energetic and resourceful independent manager can match the operational resources the FSMCs have.

As documented in our review, national FSMCs pay as much as 13% less for food than would a district buying directly. And, until federal law required them to credit the full value of their lower prices to the school districts they serve, they did not always pass on these savings to the districts. The lower prices come indirectly, in the form of rebates, discounts and credits paid by food processors and distributors directly to the FSMC. The FSMC's low labor costs are also generally true, but at a price paid by its workers. Since the food service employees aren't district employees, FSMCs can hire hourly workers at pay rates well below those typically paid by a district to its employees, while providing fewer benefits. They also often employ their workers for just the days the schools are in operation with few, if any, paid holidays, sick days or vacation time.[1] All companies need to make a profit and strive to increase their profit every year. All customers, including school districts, want the best possible products and service at the lowest price with the most favorable terms they can obtain.

In the fiercely competitive world of on-site food service management, FSMCs respond to that conflict by offering their services at the lowest possible apparent price. In New Jersey, school districts are required to select the FSMC who meets certain minimum standards and of-

fers "the lowest proposal received."[2]

Naturally, this encourages a "race to the bottom." After identifying the bidders who meet the federal- and state-mandated minimum standards and some requirements of their own, district administrators focus on the financial offers: lowest management fee; highest guaranteed return to the district; lowest overall costs; and highest investment offer (typically for facility improvement). Low bid/best offer wins. If a district wants to select a company that does not offer the best overall financial package, it must get the approval of the Bureau of Child Nutrition, Division of Food and Nutrition Services, New Jersey Department of Agriculture.

So, how does a FSMC make a profit under these circumstances? The term in the industry is "indirect income": profits in addition to its fee that the client doesn't know exists. A second way is to, as they say in the industry, "marry the client" – become so endearing to the school district board and administrators that they want to retain the company, even through competitive rebids.

None of this is illegal unless a specific practice is prohibited by law. Most companies have sources of income not visible to the customer. Automobile dealers receive volume incentive rebates from the manufacturers. Retailers charge fees for shelf space to food companies to handle their products, passed along in the prices charged to consumers. In the case of public school districts, this extra profit is paid by the district's taxpayers and by the school children who aren't receiving the full benefit of the money paid by the district to support the school nutrition program. And, of course, all companies do their best to be well-loved and retained by their clients and customers.

Our review of the records of the ten sample districts identified three areas where FSMCs can gain indirect income: (1) fees charged for workers compensation insurance; (2) fees charged for liability insurance; and (3) rebates from vendors. We also found that the procedures followed by some school districts tended to discourage competitive bidding.

Insurance Charges

FSMCs pay two primary insurance expenses that they pass along directly to their clients: workers compensation insurance and liability insurance. Chartwells and Sodexo charge for these expenses differently, and charge different amounts to each district.

Workers Compensation Insurance

In New Jersey, workers compensation insurance rates are fixed by the Division of Workers Compensation of the State's Department of Labor and Workforce Development. By law, a basic rate, expressed as dollars per $100 of payroll, is established for each type of industry (FSMCs fall under the restaurant industry category). This rate, plus a surcharge, called an "Excess Element," is uniform for all companies in an industry category.

The rate for individual companies is adjusted by an "Experience Modification" – a discount if the company's workers compensation experience has been favorable or a surcharge if the experience has been worse than the industry's average. The resulting rate is charged to each company for all employees in the state. There are no exceptions for executives or other salaried employees or by locality: one size fits all. These rates and the experience modification discount or surcharge for every employer in the state is published on the website of the New Jersey Compensation Rating and Inspection Bureau, http://www.njcrib.com.

The published 2009 workers compensation insurance premiums for Compass Group/Chartwells and Sodexo are:

	Chartwells	Sodexo
Base premium per $100 of payroll	$3.11	$3.11
Excess Element	$2.48	$2.48
Total premium per $100 of payroll	5.59	5.59
Experience modification	93.6%	93.0%
Net premium per $100 of payroll	$5.2322	$5.1987
equals percent of payroll	5.2322%	5.1987%

Liability Insurance

All school districts require their FSMCs to carry liability insurance for the protection of the district from damages caused by the company. These policies include general, product, employer's and automobile coverage, usually for $2 million; in many instances with an "umbrella" policy to cover any costs above that limit, usually up to $5 million.

Unlike workers compensation insurance, there is no law regulating liability insurance rates. The premiums are negotiated between the insurer and the policy holder. Multi-billion dollar companies like Sodexo and Compass are able to negotiate very favorable rates compared to smaller companies.

Although we cannot know the precise rates for liability insurance, through audits of food service companies in other markets, we can estimate that $5 million insurance coverage costs between 0.5% and 0.55% of sales for companies of this size in the food service industry. Higher limits don't cost significantly more, because very few cases will cost more than $5 million. In some instances, the liability insurance premium is based on payroll, but works out to about the same half-percent of sales. For this analysis, we assumed these companies are actually paying 0.55% of sales for liability insurance coverage. An exception would be for a district that operates the food service at a loss; in that case, the estimated premium is based on the higher number, the total cost of operation. "Sales" include cash received in the cafeterias, vending proceeds, catering sales and reimbursements for subsidized meals.

Chartwells

Workers Compensation Insurance: In the financial documents examined, we found Chartwells

Table 1
Chartwells' Apparent Overcharges on Workers Compensation, 2008-2009

	Bergenfield		East Windsor		Marlboro	
	Salaried	Hourly	Salaried	Hourly	Salaried	Hourly
Payroll	$99,782	$256,308	$91,859	$282,350	$83,493	$361,245
WC charge	$8,966	$24,503	$9,057	$28,348	$8,072	$34,511
% of Payroll	8.99%	9.56%	9.86%	10.04%	9.67%	9.55%
Actual WC @ 5.232%	$5,221	$13,410	$4,806	$14,773	$4,368	$18,900
Apparent Overcharge	$3,745	$11,093	$4,251	$13,575	$3,704	$15,611
Total Apparent Overcharge		$14,838		$17,826		$19,315

charged the school districts more than their actual costs and charged different rates for salaried and hourly employees, although the actual rate is the same for all employees statewide.

Bergenfield, East Windsor, and Marlboro provided financial statements for the 2008-09 school year. The figures in Table 1 on the previous page are taken from Chartwells' financial statements.

For Edison, the only complete financial statement provided by the district was for 2006-2007. Workers compensation rates declined from 2007 to 2009; the 2007 rate in Table 2 below is estimated to have been 6.5% of payroll. Hamilton only provided a full financial statement for 2007-2008; the 2008 rate below is estimated to have been 6.0% of payroll.

Liability Insurance: Chartwells' financial statements show charges for liability insurance that are three times greater than its estimated actual cost and vary from district to district for the same $2 million insurance coverage. Charges ranged from 1.63% of sales at Hamilton Township to 1.93% of sales at Edison for no reason that can be determined from the contracts or other documents reviewed.

Table 3 compares the liability insurance charges in each Chartwells school district to the estimated actual cost of coverage.

Sodexo

Sodexo conceals its charges for workers compensation insurance and liability insurance by combining them on one line of their financial statements. For some districts, they show a portion of the workers compensation charge separately. Sodexo statements also show salaries and hourly wages, including overtime pay, as a single number and, on some statements, show a "wage accrual" for employees' paid time off.[1]

On the next page Table 4 compares the combined workers compensation/liability insurance charge in each school district to Sodexo's estimated actual cost of these insurances.

Vendor Rebates

Until the 2009-10 school year, the U.S. Department of Agriculture's Food and Nutrition Service (FNS) recommended, but did not make mandatory, that school districts include in their Requests for Proposals (RFP) and contracts a clause that required their FSMCs to disclose and credit all discounts, rebates and credits received from vendors. Most districts ignored the advice.[2]

Effective with the 2009-2010 school year, the FNS required all school districts to include in their Requests for Proposals and contracts with FSMCs the

Table 2

Chartwells' Estimated Overcharges on Workers Compensation, 2006-2007 and 2007-2008

	Edison (2007)		Hamilton (2008)	
	Salaried	Hourly	Salaried	Hourly
Payroll	$148,075	$825,232	$170,135	$429,921
WC charge	$13,460	$75,875	$16,289	$44,939
% of Payroll	9.09%	9.19%	9.57%	10.45%
Estimated WC	$9,625 (6.5%)	$53,640 (6.5%)	$10,208 (6.0%)	$25,795 (6.0%)
Estimated Overcharge	$3,835	$22,235	$6,081	$19,144
Total Estimated Overcharge		$26,070		$25,225

Table 3
Chartwells' Estimated Overcharges on Liability Insurance

	Bergenfield	E. Windsor	Edison	Hamilton	Marlboro
School Year	2008-09	2008-09	2007-08	2008-09	2007-08
Insurance Limit	$2 million	$2 million	$2 million	$2 million	$2 million
Sales	$1,221,819	$1,333,643	$3,462,472	$3,035,533	$1,475,977
Charge to District	$22,608	$23,381	$66,862	$49,556	$25,759
% of Sales	1.85%	* 1.75%	1.93%	1.63%	1.75%
Estimated cost @ 0.55%	$6,720	$7,335	$19,044	$16,695	$8,118
Estimated Overcharge	$15,888	$16,046	$47,818	$32,861	$17,641

* East Windsor: Chartwells budget for 2009-10 shows this charge as 2.08% of sales.

following language:

> *"Only allowable costs will be paid from the nonprofit school food service account to the contractor, net of all discounts, rebates, and other applicable credits accruing to or received by the contractor or any assignee under contract to the extent those credits are allocable to the allowable portion of the costs billed to the school food service authority."* [3]

Table 4
Sodexo's Estimated Overcharges on Workers Compensation/ Liability Insurance

	Long Branch	Piscataway	Southern Regional	West Orange	W. Windsor - Plainsboro
School Year	2008-09	* 2009-10	2007-08	** 2009-10	2008-09
Sales	$2,626,908	$2,440,576	$948,512	$2,467,499	‡ $2,811426
Payroll	$755,601	$748,097	$301,149	$974,093	$801,513
Insurance Charge	$65,915	$73,217	$26,815	$91450	$78,737
Minus: Liability Ins. @ 0.55%	$14,448	$13,423	$5,217	$13,571	$15,463
WC Insur. @ 5.199%	$39,284	$38,894	(6.0%)$18,069	$50,643	$41,671
Estimated Overcharge	$12,183	$20,900	$3,529	$27,236	$21,603
Insurance Limit	$5 million	$5 million	$2 million	$1 million	$1 million

Note: Liability insurance is a percentage of sales. Workers compensation insurance is a percentage of payroll.
*** Piscataway: Data taken from Sodexo's proposal for 2009-10. No financial statements were provided.**
**** West Orange: Proposal for 2009-10 school year.**
‡ West Windsor-Plainsboro: Total costs. Food services operated at a loss.

When the rule became effective for the 2009-10 school year, the districts saw a significant reduction in food costs, a measure of how much hidden profit the FSMCs had been keeping in prior years. The FSMCs responded to this loss of indirect income by sharply increasing their management fees to compensate for the loss of rebate revenue.

Table 5 below shows the amount of rebates FSMCs disclosed in their proposals for the 2009-10 school year (and actually credited to Hamilton in prior years) and the offsetting increases in their management fees.

Sodexo has attempted to reduce the impact on its bottom line of the new requirement that it must credit all its rebates to its school district clients. Its contracts with the Long Branch and Piscataway districts include language that permits it to retain "prompt payment discounts."[4]

However, the contracts do not define the size of the discount nor how prompt a "prompt payment" must be to qualify for the discount. Usual prompt payment discounts are one or two percent for payment within 10 days of the date of invoice. There's no law that says the "prompt payment discount" can't be, say, 10% for payment within 90 days.

This exception to the requirement for crediting districts with all rebates may be not be legal, and the exception does not appear in the Chartwells contracts reviewed. The language of the law says "net of <u>all</u> discounts, rebates, and other applicable credits." It does not appear to grant an exception for prompt payment discounts. Whether Sodexo, Chartwells and other FSMCs retain prompt payment discounts at other districts, where contracts don't include the exception language, is unknown.

Noncompetitive Bidding Practices

In all ten districts whose documents were reviewed, the district awarded its most recent contract (for either 2008-09 or 2009-10) to the incumbent. The FSMC that is currently operating a district's food services always has an advantage over its competitors when a contract is rebid. It knows the actual operation, services and sales costs, while the other bidders have to make estimates and educated guesses, based on information included in the district's Request for Proposals.

The incumbent has had the opportunity to build up the confidence of the district's board and administrators in its capabilities by providing good services and keeping costs within budget. The incumbent also has the opportunity to cultivate cordial relationships among its managers and executives and the district's board members and administrators. That's what all successful companies do: provide satisfactory goods and services and develop loyalty among their customers. It's sound business practice and perfectly legal.

However, in some instances our review of districts' Requests for Proposals (RFP) – invitations to FSMCs to submit proposals – and the contracts executed be-

Table 5

Disclosed Rebates	**Chartwells**					**Sodexo**				
District:	E. Wind.	Hamilton	Hamilton	Hamilton	Hamilton	Long Br.	W. Windsor FY 2010 Proposals **			
Year:	FY 10	FY 07	FY 08	** FY 09	FY 10	FY 10	Aramark	Chart.	Pomp.	Sodexo
$ Rebate	$70,094	$78,397	$73,740	$39,086	No Data	$167,907	$95,385	$175,776	$0	$176,000
% of Total Food	13.2%	7.0%	6.5%	5.6%		14.3%	7.4%	12.9%	0.0%	14.1%
Increase in Fee	$67,053	n/a	n/a	n/a	n/a	$150,072	n/a	n/a	n/a	$145,296

* Hamilton FY 2009: September-December 2008

** West Windsor-Plainsboro: Aramark Corp., Chartwells and Pomptonian Food Services submitted proposals for this contract. Sodexo was re-awarded the contract.

tween the districts and FSMCs raise questions about whether the bidding processes were truly competitive. The process of issuing the RFP and receiving proposals appears to have tilted heavily in the incumbent's favor and are contrary to the recommendations of federal and state authorities. The financial terms of some new contracts are significantly more favorable to the retained incumbent FSMC than the terms included in the RFP, on which competitors had to base their financial proposals.

For example:

- **West Orange** (Sodexo) issued an undated RFP for the 2009-10 school year that required bidders to attend a mandatory tour of the district's school food service facilities on Thursday, June 25 and submit proposals responding to the detailed, 45-page RFP three business days later, Tuesday, June 30 for a contract that started the next day, July 1.

  The abbreviated schedule made it virtually impossible for companies other than Sodexo to prepare competitive proposals in just three business days (even if they worked over the weekend). Sodexo was the only bidder and was awarded the contract for 2009-10, with renewal options for four additional years.

  The reason why this $2.5 million (annual sales) contract was handled in a way that precluded competition from other FSMCs cannot be determined from the documents provided by the district in response to a Open Public Records Act request by SEIU Local 32BJ. Important financial information in the 2006-07 and 2008-09 contracts provided was deleted, including Sodexo's management fee and guarantee of a financial return to the district.

  Other documents requested but not provided include: Sodexo's proposal for the 2009-10 school year, including sales and cost projections, management fee and guaranteed financial return; the 2009-10 contract with Sodexo; Sodexo's financial statements for the prior contract years, and copies of governmental inspection reports.

  In place of the governmental inspection reports requested, Sodexo's own inspection reports of its operations and food safety procedures were provided. The Sodexo reports found no deficiencies in its own operations. The West Orange Health Department does not post its inspection reports on its website.

- **Edison** (Chartwells) issued an RFP on February 20, 2008 for the 2008-09 school year, requiring a response in 17 business days, by March 14.

  The RFP set high qualifying standards and required a $250,000 performance bond, effectively eliminating all but the largest FSMCs.[5] Sodexo, a major player in the New Jersey school food service market that would meet these qualifications, was not invited. Aside from Chartwells, the other eight companies that were invited to compete declined to submit proposals. As one company, Dowling Food Service Management, Inc., said in a letter to the district, "After taking your tour and looking at your financials, I am sorry there just isn't enough time [to prepare a proposal]."

  As a result, the sole bidder was Chartwells, the incumbent.

  The contract as executed was far less stringent that the terms required in the RFP. The $250,000 performance bond was not required. Insurance limits were set at $2 million, although the RFP said the limit would be $5 million.

  The RFP said the FSMC must refund to the district the full amount of any operating profit that is less that the amount the FSMC guaranteed. The contract limited the refund requirement to only the total of the management fee, eight cents per meal. Chartwells would retain its full administrative fee, nine cents per meal. If the number of meals served in 2009 was approximately the same as in 2008, 1,920,000, Chartwells' management fee would have been $153,600 and its administrative fee $172,800 – for a total of $326,400, compared to a guarantee of $125,000. Even if it had to refund the entire amount of the guarantee, Chartwells would still retain more than $200,000 in fees.

  Chartwells offered an investment of $500,000 for various improvements, including a district-wide computerized cash register system and a new delivery vehicle. The investment is charged to the

district as an operating expense at the rate of $100,000 a year for five years.

They also offered to fund an annual $125,000 scholarship for the life of the contract, paid from its own profits. They can afford it. Their management fee, based on a little more than 2 million meals in 2009-10, is $341,600, plus an estimated $67,000 in overcharges on workers compensation and liability insurance, for a total estimated profit of about $408,000, equal to almost 11% of projected sales.[6] After deducting the scholarship payment, their profit for the year would be about $283,000, some 7.6% of sales.

- **Marlboro** (Chartwells) issued an undated Request for Proposals for 2009-10 with a response date of June 11, 2009, just 13 business days before the end of the 2009 contract year, June 30. The RFP states the contract would be awarded on June 16, three business days after proposals were received, hardly enough time to fairly evaluate competing proposals on the 20 detailed criteria listed in the RFP.

  The RFP did not show a date for a pre-proposal conference or tour of the district's food service facilities, a usual practice strongly recommended by the federal Food and Nutrition Service and essential to all bidders except the incumbent, in order to prepare knowledgeable proposals and financial projections.

  Whether any companies besides Chartwells submitted proposals is unknown. The district did not comply with our request for copies of proposals. Chartwells' new contract was dated July 1, thirteen business days after the deadline for submission of proposals.

  The insurance requirements were lower than in the RFP, and the minimum financial rating required in the RFP for the insurance carrier was omitted. (Insurers with high financial ratings by A.M. Best and other rating firms can charge more for their insurance policies than lower-rated companies.)

- **Bergenfield** renewed its contract with Chartwells for the 2008-09 school year after receiving proposals from it and two other companies, Aramark Corp. and Pomptonian Food Service.

  Chartwells offered to manage the service for a management fee of 10 cents per meal served, with no charge for administrative services (permitted under the law). Fees proposed by the other two companies were higher.

  However, in the contract Bergenfield signed with Chartwells, the company was allowed to charge an additional administrative fee of 11 cents per meal, more than doubling the fee offered in its proposal.

  The RFP required $10 million in product liability insurance coverage, but in the contract only $2 million in coverage was required, significantly reducing Chartwells' cost of insurance compared to the costs the other companies would have included in their financial projections.

- **Piscataway** (Sodexo) issued a RFP for the 2009-10 school year on Friday, February 27, 2009, providing for a mandatory pre-proposal conference and tour of the schools three business days later, Wednesday, March 4. Proposals were due on March 17, nine business days after that.

The abbreviated schedule gave a distinct advantage to the incumbent, Sodexo, which was fully familiar with the operation.

Two companies submitted proposals in addition to Sodexo: Aramark Corp. and Metz & Associates, a Pennsylvania food service company. The Metz proposal was

not competitive financially. Only the first page of Aramark's proposal was provided, showing a management fee, 18.5 cents per meal, higher than Sodexo's 12 cents per meal fee, but also offering a guaranteed return to the district, $278,000, compared to Sodexo's $250,000. Whether Sodexo's financial projections were superior to Aramark's is unknown because the rest of the Aramark proposal was not provided.

The abbreviated RFP schedules are directly contrary to the recommendations of the State Division of Food and Nutrition. A document posted on its website[7] points out requirements of the federal Office of Management and Budget that "All procurement transactions . . . shall be conducted in a manner that proves maximum open and free competition . . . Proposals must be solicited from an adequate number of qualified sources to permit reasonable competition consistent with the nature and requirements of the procurement."[8]

The Division's document advises districts, "Allow a minimum of 45 days for the FSMC to submit the proposal . . . [beginning] when the FSMC receives the request, not when the RFP is advertised or sent out."

West Orange, Edison, Marlboro and Piscataway did not come close to meeting the State's 45-day recommendation.

In New Jersey, FSMCs are permitted to prepare their own contracts, provided they contain all the mandatory federal and state language. This leaves open ample areas where the companies can insert their own terms, which the districts must then find and negotiate over. This most likely is why RFP terms like performance bonds and insurance terms were reduced or omitted from the contracts reviewed and how Sodexo is able to insert its provision that prompt payment discounts are not subject to reimbursement to the district.

This practice is contrary to the requirements of the federal government. The Food and Nutrition Service says, "FSMC-developed contracts are never allowed since they would compromise open and free competition. While not recommended, a SFA may invite the successful offeror under a RFP to assist in finalizing the contract provisions after the successful offeror has been identified. Such changes cannot result in a material change to either the solicitation or contract."[9]

Permitting a successful proposer to double its fee during contract negotiations and the elimination in contracts of RFP terms like performance bonds and insurance requirements would appear to be "material changes."

The Road To Reform

While the battle over rebates, discounts and credits has been won, there are other, important areas for improvement in the outsourcing of school food service programs, as illustrated in this report. The State and individual districts can take action on their own now, without waiting for the federal government to impose new regulations.

1. Districts should require the FSMC to provide specific proof (such as invoices) that the charge to the district for liability insurance is only for actual cost.

2. The amount chargeable for workers compensation insurance should be reported separately from other types of insurance on the FSMC's financial statements and be limited to the actual cost to the FSMC. This cost can be found on the New Jersey Compensation Rating and Inspection Bureau website, http://www.njcrib.com.

3. The State should enforce the federal requirement that school districts cannot adopt FSMC-prepared contracts and should ensure that FSMCs are not permitted to increase the fees quoted in their proposals or change essential RFP requirements, such as bonds and insurance limits. The State also should adopt and enforce the federal recommendation that FSMCs should not be permitted to "assist in finalizing the contract provisions after the successful offeror has been identified."

4. Among the documents reviewed were several FSMC self-administered operational performance and food safety audits. Unsurprisingly, these found no deficiencies and required no remedial actions; the schools' food services were being operated perfectly. The State should require that operational, food safety and financial audits should be administered by an independent professional firm, contracted and paid by, and reporting only to, the State to ensure there is no influence on the auditor by the FSMC.

5. The State should enforce its own standards, as described in its "Contracting for School Food Service" document regarding the RFP process. This document says the Division of Food and Nutrition "annually reviews each contract between the LEA (Local Education Authority) and the FSMC to ensure all requirements set forth in state and federal regulations." In particular, the State should ensure that each District allows 45 days for responses to RFPs. The State should also act to ensure that contract terms do not vary from those contained in the RFP.

Adoption of these recommendations will help ensure that our school children are receiving the full benefits of parents' and taxpayers' hard-earned money.

References

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1 An accrual is a reserve to pay for a future expense. Whether, and how much, of Sodexo's accruals are actually paid out to employees for holidays, sick leave or vacation time cannot be determined except by an audit of the company's books.

2 One district that took the advice was Hamilton Township. In 2006-07, the district received $78,397 in rebates, equal to 7% of purchases; in 2007-08, $73,740 (6.5%), and in the September 2008-January 2009 period, $39,085 (5.6%).

3 7 CFR Part 210,21

4 Article III, Section 3.13 (A) in both the Long Branch and Piscataway contracts: "Rebates or allowances (excluding prompt payment discounts) obtained from vendors, suppliers, manufacturers or distribution companies, including those obtained through Sodexo's regional or national purchasing or distribution arrangements based on goods procured solely for District's account shall be credited to the District as described in Section I.V.2."

5 Based on prior experience in the industry, bond issuers generally require $250,000 in cash or three to five times the amount in negotiable securities (e.g., publicly traded stocks) as security before posting a $250,000 performance bond for a small or privately held company.

6 The workers compensation insurance charge in Chartwells' proposal equaled 10.167% of payroll, vs. 5.232% actual. The liability insurance charge equaled 2.02% of total sales, vs. an estimated 0.55%.

7 Handout #355, "Food Service Management Company: Fact Sheet 1, Contracting for Food Service."

8 OMB Circular A-102 and Part 3015

9 USDA Food and Nutrition Service brochure, "Contracting With Food Service Management Companies: Guidance for SFAs [School Foodservice Authorities]," page 1-7

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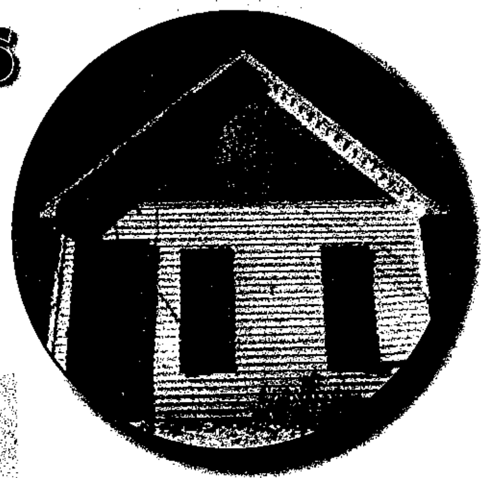
This research was commissioned by Service Employees International Union, Local 32BJ

EXHIBIT 12

How Sodexo Contributes to Poverty in the United States



The cycle of poverty that Sodexo claims it wants to end *starts* with a job at Sodexo

SEIU
Stronger Together

Prepared by the Service Employees International Union
For more information, go to www.cleanupsodexo.org
January 6, 2010

How Sodexo Feeds Poverty in the United States

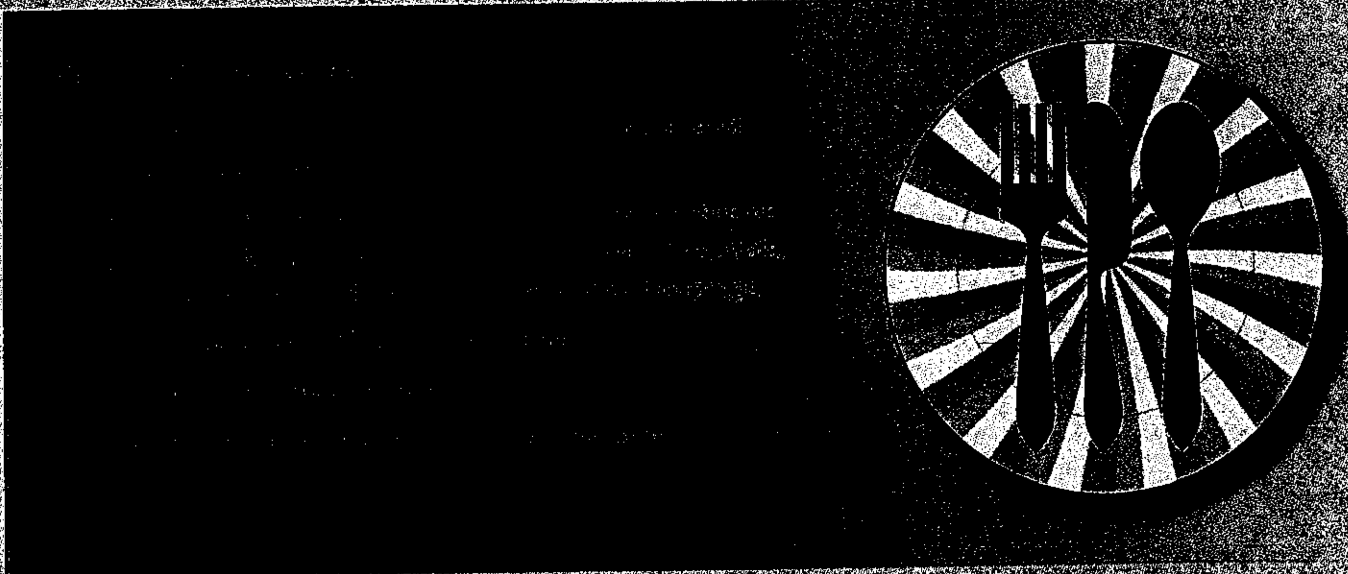
The "cycle of poverty" that Sodexo claims it wants to end <u>starts</u> with a job at Sodexo.

This report focuses on how Sodexo, while being a vocal proponent of anti-hunger and anti-poverty programs in the United States, actually contributes to poverty in the United States by frequently failing to provide livable-wage jobs in many U.S. cities.

Since 2003, Sodexo —a global outsourcing company that specializes in food and facilities management—has sponsored a series of reports on poverty and homelessness in America published by the U.S. Conference of Mayors, including a November 2009 report on childhood anti-hunger programs.[1] Poverty studies are vital and praiseworthy. However, sponsorship by Sodexo —a company which pays workers low wages and fails to offer affordable health benefits—raises significant concerns. An analysis done by the Service Employees International Union has found that many Sodexo workers in the United States are paid so little that they can qualify for a host of U.S. food assistance programs.

Sodexo's operating profits were up 8.1% in 2009 to $1.009 billion, and the company says it is "committed to ending hunger in the United States." Yet, many of its full-time employees are paid so little they qualify for taxpayer-funded anti-hunger programs.

The gap between Sodexo's public position on poverty issues and their record as an employer is wide. The Sodexo Foundation says it is "committed to ending hunger in the United States by fighting its root causes, including poverty, unemployment, and lack of education," as well as "being a driving and creative force that contributes to a hunger-free nation."[2] Yet, based on SEIU's analysis, many full-time Sodexo employees qualify for federal anti-hunger and rent-subsidy programs, as well as other federal, state, and local programs. Ultimately, these costs are borne by our nation's taxpayers while Sodexo continues to turn a profit. It's telling that even in these tough economic times, Sodexo recently reported that its 2009 revenues were up 7.9% (to $19.85 billion) and operating profits were up 8.1% (to $1.009 billion).[3]



Many Sodexo Workers Qualify for Federal Anti-Hunger Programs

One value that our nation holds dear is the idea that if you work hard you should be able to earn a decent living; take care of your family; and maybe even save a little for the future. But far too often, Sodexo workers who put in 40 hours a week feeding our children, taking care of hospital patients, and doing other essential but often thankless work fall below the poverty line for a family of four.

We looked at the eligibility requirements of the three largest and most important federal anti-hunger programs: the Supplemental Nutrition Assistance Program (SNAP, what used to be known as food stamps); the Special Supplemental Nutrition Program for Women, Infants, and Children (commonly known as WIC); and the National School Lunch Program. We then compared them to the earnings of two typical Sodexo workers. We assumed that workers had the option of working year-round even though this is often not the case. Many Sodexo workers in school districts and at universities are actually laid off over the summer and holiday breaks, and so have to scramble to find additional income for those short periods.

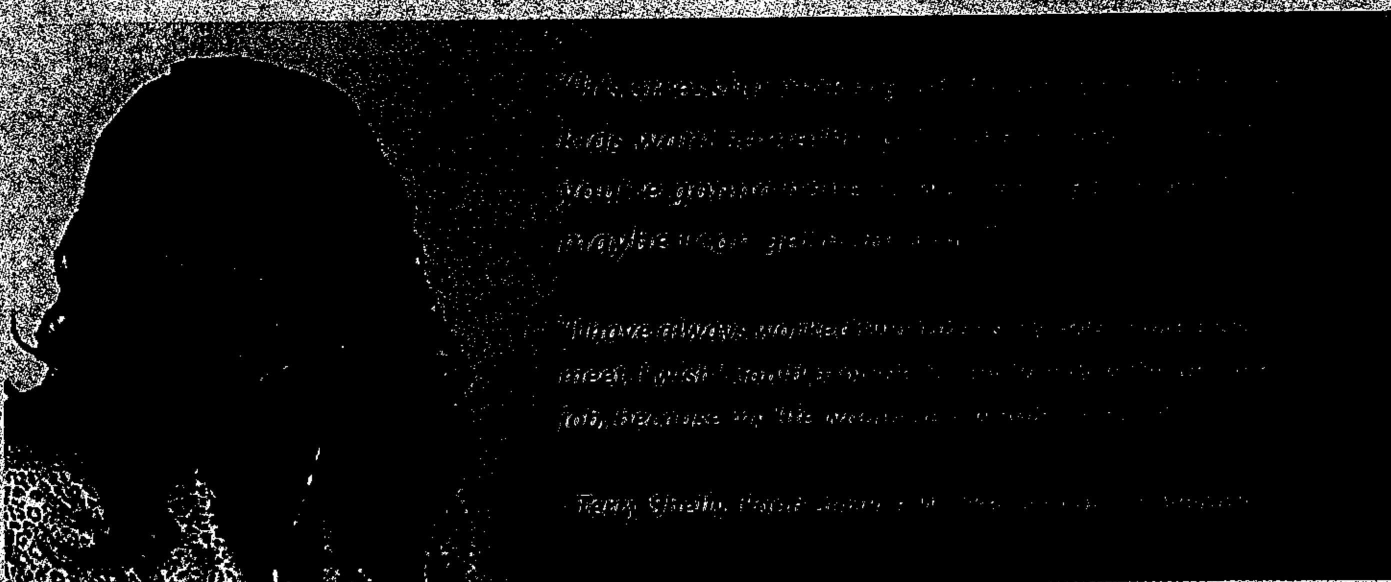
Sodexo pays its workers as little as <u>$8.27 per hour,</u> leaving many eligible for:

- ✓ **FOOD STAMPS**
- ✓ **WIC**
- ✓ **SCHOOL LUNCH**

We analyzed two wage points reported by Sodexo workers with whom we have spoken: a low of $8.27 per hour, and a somewhat higher wage of $10.54 per hour. At both of these wage levels, we found that a family of four would still qualify for food stamps, WIC, and free or reduced-price school lunches.

Struggling Below the Poverty Line

According to the U.S. Dept. of Health and Human Services' 2009 Poverty Guidelines, which are used as the basis for determining eligibility for many public anti-poverty programs, the poverty line for a family of four was $22,050 for 2009.[7] A Sodexo employee who works full-time, year-round making $8.27 per hour earns just $17,202 per year, far below the poverty line. Even an employee who earns $10.54 an hour fails to climb above the poverty line for a family of four, making just $21,923 per year.



Eligibility for SNAP, WIC, and the National School Lunch Program

Sodexo claims a special connection to anti-hunger issues because of its role as a food service company. However, many of its employees are eligible to participate in the nation's anti-hunger programs.

At the same time Sodexo helps to deliver meals to low-income children through the National School Lunch Program, the children of many of its employees are eligible for free- and reduced-price meals through the same program because Sodexo fails to pay their parents adequate wages. Additionally, while Sodexo trumpets its diversity and the opportunities available to women in the company (including the fact that 57% of Sodexo employees are women), many of those workers are actually eligible for the WIC program that seeks to combat malnutrition among new mothers and their young children.

	SNAP (Food Stamps)	WIC	School Lunch
Eligibility Requirements	Net income has to be less than 130% of the poverty line (though families with significant assets or savings beyond their annual income may not qualify.[8]	Determined by state, but income limit cannot has to be set between 100% and than 185% of the federal poverty guidelines.[9]	Children are eligible for free meals if their household income is below 130% of the poverty line, and for reduced-price meals if their income is below 185% of the poverty line.[10]
Eligibility Threshold, family of four[11]	$28,665	$22,050 (at 100% of poverty line) $40,793 (at 185% of poverty line)	$28,665 (for free meals, at 130% of poverty line) $40,793 (for reduced-price meals, at 185% of the poverty line)
For a Sodexo worker making $8.27 per hour (or $17,202 annual income)			
Eligibility of Sodexo workers at $8.27 p/h	✓*Eligible*	✓*Eligible*	✓*Eligible*
# of Hours Employee Would Have to Work Per Week to Exceed Program Eligibility Threshold	67	52 (at the poverty line) 95 (at 185% of poverty line)	67 (for free lunch) 95 (for reduced price lunch)
For a Sodexo worker making $10.54 per hour (or $21,923 annual income)			
Eligibility of Sodexo workers at $10.54 p/h	✓*Eligible*	✓*Eligible*	✓*Eligible*
# of Hours Employee Would Have to Work Per Week to Exceed Program Eligibility Threshold	52 hours	41 (at the poverty line) 74 (at 185% of poverty line)	52 hours (for free lunch) 74 hours (for reduced-price lunch)

Taxpayers Foot the Bill

A recent article in the *New York Times* noted that food stamp use is at a record high, with over 36 million people relying on the program for basic necessities. The program now feeds 1 in 8 Americans and 1 out of every 4 children.[12] While food stamp use is growing, the same is also true of both the WIC program and the National School Lunch Program. Along with the number of people participating in the program, the cost of the benefits that taxpayers provide is growing as well.

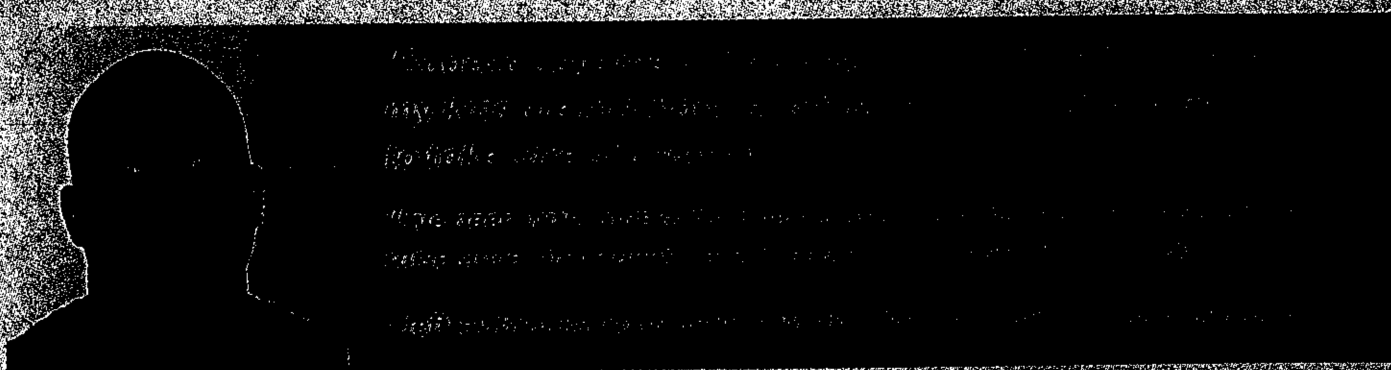
	SNAP (Food Stamps)	WIC[13]	School Lunch
Program Cost, 2000	$17.05 billion	$3.98 billion	$7.56 billion
Program Cost, 2008	$37.65 billion	$6.21 billion	$11.7 billion
% Increase In Cost	121%[14]	56%	55%[15]
% Increase in Total Participation	65% increase in number of people in the program	21% increase in the number of people in the program	20% increase in the number of free and reduced-price lunches served under the program[16]

Deeper Poverty, Unemployment

The situation for many Sodexo workers is actually much worse than that described above such as some Sodexo workers who make even less than the $8.27 low-wage scenario described above. For example, we've talked to one worker who makes just $7.80 an hour and is only offered about 11 hours per week. Because she only works part time, her annual income, even if she works year-round, comes to just $4,462.

The fact that many Sodexo workers only work closer to 38 weeks per year because of summer and holiday breaks also has a tremendous impact on income. For a worker making $8.27 per hour, his or her annual income may actually come out closer to $12,500 per year if they don't work summers and holidays. For a worker making $10.54 per hour, annual earnings aren't much better: just over $16,000 per year. Some workers may be able to find temporary jobs, though such jobs are often scarce, especially in a tough economy when most companies are struggling just to keep their regular staff on payroll. Some have no other choice but to apply for unemployment benefits.

Some workers have no choice but to apply for unemployment benefits during layoff periods, adding to the already heavy burden Sodexo places on taxpayers.



Inadequate Healthcare Options Only Add to the Problems

Finally, the fact that Sodexo frequently fails to provide affordable, accessible health insurance adds to the struggles of families to make ends meet.

Some Sodexo employees pay as much as 25% of their annual income for health insurance.

While Sodexo employees are offered health insurance options, the cost is often prohibitively expensive except for the most basic of plans. The HMOs that Sodexo offers in many individual markets generally have an employee cost of just over $120 per pay period for family coverage.

For a full-time, seasonal worker who earns $8.27 per hour, that means spending more than a quarter of his or her annual income on healthcare, leaving little left over for other basic necessities. Even for year-round workers making $10.54 an hour (who still earns just below the poverty line for a family of four), paying the employee premium would eat up 15% of their annual income.

Sodexo does offer some lower-cost plans, but the benefits can be very limited. For the BasicNet plan, for example, annual hospital costs are capped at $2,000, preventive care costs are capped at $100 per year, and outpatient surgery costs are capped at $400 per year. The PPO option, while somewhat better, still has a maximum out-of-pocket cost of $5,000 per individual, which by itself could lead a family who already is hovering at or below the poverty line into bankruptcy if a serious medical issue arises.

Housing & Homelessness

For many working families, the path to homelessness can be short and sudden. Families who must rely on poverty-wage jobs live paycheck to paycheck, spending everything they earn without having any opportunity to save for an emergency. Couple that with expensive or inadequate health insurance, and a single event like an unexpected illness can quickly escalate into a catastrophe.[17]

Even under the best of circumstances, housing costs are a huge burden on low-wage workers. For years, the National Low Income Housing Coalition (NLIHC) has been generating what it calls a "housing wage," which it defines as "the amount of money a household must earn in order to afford a rental unit at a range of sizes (0, 1, 2, 3, and 4 bedrooms) at the area's Fair Market Rent (FMR) based on the generally accepted affordability standard of paying no more than 30% of income for housing costs." Each year the NLIHC calculates this wage for every jurisdiction in the country.[18]

Nationally, the average fair market rent for a two-bedroom apartment is $1,030 per month. Using the guideline that an affordable apartment is one that consumes no more than 30 percent of a family's income, that means that a family must have a monthly income of at least $3,092 to be able to afford that apartment.[19] For a Sodexo employee working year-round making $8.27 per hour, that individual would have to work 86 hours a week—more than two full-time jobs—just to afford that apartment. For a Sodexo worker making $10.54 per hour, he or she would still have to work 68 hours per week in order to afford that apartment.

A Solution to Poverty Starts With Companies Like Sodexo

Any common-sense solution to ending hunger and homelessness in the United States must address the role that corporations like Sodexo—whose profit model depends on paying their workers poverty inducing wages—play in the creation and persistence of poverty. If we are to re-power the middle class and end poverty in this country we must be willing to take on the fight for the creation of jobs that pay a sustainable and living wage. Holding companies like Sodexo responsible for the poverty they create is a small beginning to a greater goal.

Endnotes

1. See index of reports published by U.S. Conference of Mayors at http://usmayors.org/publications/. Sodexo first sponsored a report on poverty with the USCM in 2003.
2. Sodexo Foundation Web Site, http://www.sodexofoundation.org/hunger_us/mission/mission.asp, accessed December 6, 2009.
3. Sodexo press release, "Sodexo announces both revenue and operating profit growth for Fiscal 2009," November 10, 2009, available at http://www.sodexo.com/group_en/press/news/finance/2009/091110-fiscal-2009-annual-results.asp.
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11. See official calculations at http://www.fns.usda.gov/cnd/Governance/notices/iegs/IEGs09-10.pdf, p 13412.
12. Jason DeParle and Robert Gebeloff, "Food Stamp Use Soars, and Stigma Fades," New York Times, November 29, 2009.
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17. See, for example, Stephanie Armour, "Homelessness grows as more live check-to-check," USA Today, August 11, 2003, available at http://www.usatoday.com/money/economy/2003-08-11-homeless_X.htm.
18. National Low Income Housing Coalition, http://www.nlihc.org/oor/oor2009/.
19. http://www.nlihc.org/oor/oor2009/OOR_US-Fact-Sheet.pdf.

For more information, go to www.cleanupsodexo.org

With 2.2 million members in Canada, the United States and Puerto Rico, SEIU is the fastest-growing union in the Americas. SEIU members include tens of thousands of front-line food service and janitorial workers in elementary and high schools, universities, hospitals, and long-term care facilities. SEIU food service workers and janitors are committed to improving the services they provide and winning good jobs for their communities.

SEIU
Stronger Together

EXHIBIT 13

Profits First, School Kids Last:

Exposing the High Costs of Doing Business With Sodexo

SEIU

Campaign for Quality Services

WHO WE ARE

The Campaign for Quality Services bring together service workers, parents, clergy, policy makers, and community leaders nationwide to improve public services. We are committed to ensuring responsible use of taxpayer dollars to provide better nutrition, increased food safety and healthier buildings for the communities we live in.

The Campaign for Quality Services is a project of the Service Employees International Union (SEIU). With 2.2 million members in Canada, the United States and Puerto Rico, SEIU is the fastest-growing union in the Americas. SEIU members include tens of thousands of front-line food service and janitorial workers in elementary and high schools, universities, hospitals and long-term care facilities.

www.campaignforqualityservices.org

SEIU

Campaign for Quality Services

EXECUTIVE SUMMARY

Today schools throughout the country are in a financial crisis that is unprecedented in recent history. School boards are being forced to make cuts—laying off teachers, laying off staff, eliminating athletic and academic programs, reducing school hours, and cutting back on other learning tools and activities. While teachers, staff, parents, and communities are hurt, nobody is hurt more by these school reductions than our nation's school children.

But not everybody associated with our nation's schools is hurting. In fact, multinational food service giant Sodexo—which provides food and janitorial service thousands of U.S. schools—posted a record profit of more than $1 billion in 2009.

Sodexo's business is booming during the Great Recession. As school boards face huge budget deficits caused by dwindling tax revenues, school administrators are tempted to look to outsourcing companies like Sodexo for easy answers.

But from the perspective of local communities, Sodexo's savings often prove to be a mirage. This report details how Sodexo's business model—low-wage jobs that depress the tax base and in some cases force workers to rely on different forms of public assistance and charity to meet basic housing, nutritional, and healthcare needs—put additional pressure on local budgets and actually end up costing communities money.

1.

Schools Make High-Stakes Choices, Sodexo Makes Sky-High Profits

The depth and breadth of the crisis is staggering. Kansas City has been forced to close nearly half the city's public schools. Detroit closed one out of every seven schools before classes began this fall[1]. In Illinois, at least 9,800 teachers have already been told they will lose their jobs[2]. And, according to CNN, schools in at least 17 states have opted for four-day weeks[3].

But while schools weigh closures, academic and athletic program cuts, bus route cancellations and layoffs of teachers and staff, Sodexo, a leading service provider in our public schools, prospers.

Sodexo is the world's 22nd-largest employer[4], with 355,000 employees in 80 countries world-wide and 120,000 employees in North America[5]. While many other businesses have struggled to weather the recession, Sodexo's CEO, Michel Landel, has said it is an "opportunity" for the company. At the company's January 2009 annual meeting, Landel told shareholders,

> "This crisis can constitute an opportunity for us. In all of our business segments, our clients must streamline their expenses and save, and we are for them an excellent outsourcing service solution for services which are not part of their core business but which are nonetheless indispensable to their growth[6]."

Landel's January 2009 statement about Sodexo being well positioned to gain from others' budget woes now appears prophetic. While communities endured layoffs, foreclosures, and business failures at alarming rates in 2009, Sodexo reported an excellent year. Its 2009 revenues were up 7.9% (to $19.85 billion) and its operating profits were up 8.1% (to $1.009 billion). While schools struggled to make ends meet, Sodexo's education segment brought in $4.5 billion in fiscal year 2009[7], and the company's North American Education segment grew by 4.5%[8].

2.

Multinational Sodexo vs. Local Schools: Guess Who Usually Wins?

A hard look at Sodexo's business practices in K-12 schools in various locations reveals Sodexo's hunger for profits, even while schools—and their students—struggle. Here are five situations that shed light on Sodexo's behavior in U.S. education.

Sodexo profits even in schools where teachers are laid off.

Education funding in Illinois has reached a crisis, triggering what the Chicago Sun Times called a "tsunami of pink slips." At least 9,800 teachers in Illinois have already been told they will lose their jobs, and total teacher and staff layoffs could top 20,000 statewide[9]. Illinois Governor Pat Quinn is looking to cut the state's education funding by $1.3 billion --mostly in the K12 sector[10]. If the plan is enacted, total funding for schools will have decreased 10.3% in a one-year period[11], just as federal stimulus funding dries up, adding to the woes caused by a cash-strapped state government that's already fallen millions of dollars behind on payments to school districts across the state[12].

Even accounting for the state's delinquent payments, the state recently saw an increase of sixteen school districts on the "financial watch" and "early warning" list[13], including small school districts such as Arbor Park School District in Oak Forest, IL[14], a district where Sodexo provides the food service .

And those on the financial watch list aren't the only districts that are hurting. Even relatively prosperous districts are being forced to lay off core staff. For example, Maine Township High School District 207—where Sodexo has a food service contract—will lose 75 teachers under its current budget.

How will Sodexo fare in these districts? If the experience of other districts is anything to go by, District 207 will have to pay out money to Sodexo even if the food service program runs a deficit. While Sodexo is often hired on the promise of making a district's food service program self sustaining, in some contracts the company writes in guarantees of payment even when Sodexo runs a food service deficit. Regardless of performance, many districts that are cutting teachers continue to contract with Sodexo.

Sodexo tries to profit from whomever it can.

Schools in Columbus, Ohio serve a population that is 81% economically disadvantaged[15]. According to federal regulations, the food service program in Columbus is supposed to be run on a strictly non-profit basis.

Yet the non-profit nature of Columbus' school food program did not stop Sodexo from cutting a deal that would have paid the multinational corporation 7.5% of any surplus greater than $100,000, and 5% of any surplus less than that amount[16]. Fortunately, the United States Department of Agriculture, which oversees the National School Lunch Program and thousands of non-profit food service programs across the country, quickly intervened on behalf of Columbus schoolchildren. Sodexo's profit-sharing deal was overruled and an amendment omitting the provision was signed in September 2009—just months after the initial contract[17].

It's not just food service. Sodexo profits handsomely from janitorial services too.

Sodexo holds a contract to provide janitorial services to 22 high schools in the School District of Philadelphia, a contract that it then subcontracts to Philadelphia-area contractor Team Clean. As of April 2009, the school district was paying Sodexo $1,072,015 per month to clean these 22 schools. Less than half of that—an estimated $488,630—was going to pay approximately 220 cleaners doing the work. Based on an earlier version of Sodexo's contract with the School District, accounting for administrative overhead and supplies would be approximately $94,979 per month. This still leaves nearly half a million dollars per month in the hands of Sodexo and its subcontractor, for an estimated total of $5,860,872 per year.

The entire community in Philadelphia would have been better served had the funds been used for education rather than going to Sodexo and Team Clean. Based on an average Pennsylvania teacher salary of $53,258 plus 25.9% of salary spent on benefits (for a total cost of $67,052 per teacher), the amount of extra money that the Philadelphia schools pay Sodexo would be enough to hire or retain an additional 87 teachers per year.

Besides draining school budgets of valuable funds that could be used for core services, the wages paid by Sodexo's subcontractor contribute to the larger crisis of public funding by passing along hidden costs to taxpayers. Many of the janitors who clean Philadelphia high schools could qualify for taxpayer-funded public assistance, such as food stamps, heating assistance and the Women Infants and Children (WIC) nutritional program.

"I've been working for Team Clean for about four years now. I haven't been able to afford medical through this company for myself and family. I have to pay out of pocket for hospital visits and I think that's unfair. I've fallen back on bills and can't continue to pay them. I also haven't been able to put food on the table for my family without the benefit of food stamps."

Darren McKoy
Food service worker
University City H.S.
School District of
Philadelphia

Some districts are now realizing that Sodexo profits are a strain on school budgets.

"I enjoy working with the faculty and students. I take pride in my work. I shouldn't have to depend on food stamps, or government assistance because my employer is underpaying me."

Faith Chase
Central High School
School District of Philadelphia

Kansas City schools are in the midst of a budget crisis that has the district closing nearly half their schools and cutting 700 jobs—including about 285 teachers[18]. In a desperate attempt to stave off bankruptcy, officials have carefully scrutinized the school budget. The Sodexo contract—valued at $5.3 million—is worth more than 10 percent of the $50 million the district expects to save through the controversial school closings and job cuts[19].

While the district analyzes whether they can manage the program in-house, Superintendent John Covington has put Sodexo on notice that they may be next in line for budget cuts[20].

Some school districts are pursuing smarter choices.

In April 2010, the Washoe County School District in Nevada chose to discontinue Sodexo's management of the food service program for the coming school year.

Under Sodexo's management, the district was left with more than $800,000 in deficits between the 2006-2007 and 2007-2008 school years, including a cost overrun that was much higher than expected in the first of those years, and a $250,000 transfer from the general fund in the second.

By the 2008-2009 school year, after several years of Sodexo management, the district faced participation rates far below the national average. Only two out of every three children who could eat at no cost chose to do so. And only one out of every six children who did not qualify for free or reduced price meals bought a school lunch. Even with a la carte sales added into those numbers, fewer than 25% of paying children were customers of the cafeteria. Washoe County's average daily participation in the school lunch program was 44% -- a far cry from the national average of 62%.

3.

The Height of Hypocrisy: Sodexo Preaches Anti-Hunger While Sodexo Workers Qualify for Federal Anti-Hunger Programs

Sodexo has an exceptionally savvy public relations operation. The company sponsors conferences such as the annual Council of Urban Boards of Education conference to market their services to schools. In Columbus, Ohio—whose schools serve an impoverished child population and where Sodexo sought a for-profit food service deal that was struck down last year by the USDA—Sodexo is launching an anti-hunger initiative that has garnered media attention. In a district that serves 56,000 children, 81% of whom are considered disadvantaged, Sodexo will send a backpack full of food home with five students per elementary school so they can have adequate nutrition throughout the weekend[21].

But the heart of Sodexo's public relations strategy is the Sodexo Foundation. According to public relations documents, the foundation is "committed to ending hunger in the United States by fighting its root causes, including poverty, unemployment, and lack of education," as well as "being a driving and creative force that contributes to a hunger-free nation[22]."

A wide gap separates Sodexo's public relations rhetoric from the reality of Sodexo's record as an employer. With the low wages many Sodexo employees are paid—along with no access to quality affordable healthcare—many are forced to rely on public assistance and charity to meet their need for housing and healthcare. In these cases, Sodexo is effectively outsourcing its employer obligations to taxpayers and local communities.

[redacted]

Many Sodexo Employees Qualify for SNAP, WIC, and the National School Lunch Program[23-26]

	SNAP (Food Stamps)	WIC	School Lunch
Program Requirements			
Eligibility requirements	Net income has to be less than 130% of the poverty line (though families with significant assets or savings beyond their annual income may not qualify.	Determined by state, but income limit has to be set between 100% and than 185% of the federal poverty guidelines.	Children are eligible for free meals if their household income is below 130% of the poverty line, and for reduced-price meals if their income is below 185% of the poverty line.
Eligibility threshold, family of four	$28,665	$22,050 (at 100% of poverty line) $40,793 (at 185% of poverty line)	$28,665 (for free meals, at 130% of poverty line) $40,793 (for reduced-price meals, at 185% of the poverty line)
For a Sodexo worker making $7.50 per hour:			
Annual income	$15,600		
Qualifies for program?	✓	✓	✓
# of hours employee would have to work per week to exceed program eligibility threshold	74	57 (at the poverty line) 105 (at 185% of the poverty line)	74 (for free lunch) 105 (for reduced price lunch)
For a Sodexo worker making $10.01 per hour:			
Annual income	$20,821		
Qualifies for program?	✓	✓	✓
# of hours employee would have to work per week to exceed program eligibility threshold	56 hours	43 (at the poverty line) 79 (at 185% of the poverty line)	56 hours (for free lunch) 78 hours (for reduced-price lunch)

Sodexo claims a special connection to anti-hunger issues because of its role as a food service company. And it is on the hunger issue that Sodexo's hypocrisy is most striking.

Despite Sodexo's rhetoric, many impoverished Sodexo employees qualify to participate in the nation's most important anti-hunger programs—the Supplemental Nutrition Assistance Program (SNAP, what used to be known as food stamps); the Special Supplemental Nutrition Program for Women, Infants, and Children (commonly known as WIC); and the National School Lunch Program.

According to the U.S. Dept. of Health and Human Services' 2009 Poverty Guidelines, which are used as the basis for determining eligibility for many public anti-poverty programs, the poverty line for a family of four was $22,050 for 2009 and the first part of 2010[27]. A Sodexo employee who works full-time, year-around making $7.50 per hour is paid just $15,600 per year, far below the poverty line. Even an employee who is paid $10.01 an hour fails to climb above the poverty line for a family of four, being paid just $20,821 per year.

The number of Americans forced to rely on federal anti-hunger programs has skyrocketed in recent years. A recent article in the New York Times noted that food stamp use is at a record high, with more than 36 million people relying on the program for basic necessities. The program now feeds 1 in 8 Americans and 1 out of every 4 children[28]. While food stamp use is growing, the same is also true of both the Women Infants and Children (WIC) nutritional program and the National School Lunch Program. Along with the number of people participating in these programs, the cost of the benefits that taxpayers provide is growing as well. For example, the cost of SNAP (food stamps) grew 121% from 2000-2008 and cost taxpayers $37.65 billion[29].

America cannot afford to have multinational companies like Sodexo pay poverty wages and force their workers into anti-poverty programs. Those who work for a living must be able to make a living.

"I work 26.25 hours a week at about $8 an hour. Sodexo only pays health insurance for employees that work 30 hours. So I'm kind of stuck in a hard place right now.

Because I'm 63, I won't be eligible for Medicare until I'm 65. Without health insurance, my medication costs $600 for three months. If I had any help to pay a portion, it would make such a difference."

Delores Jacob
Food service worker,
Lumberton Elementary
School, NJ

4.

Sodexo Healthcare: The Relationship Between High Profits, High Taxes, and High Premiums

When companies fail to provide employees access to affordable health care, everybody suffers. Taxpayers pay higher taxes to cover the cost of public health care and local businesses pay higher premiums to cover the cost of private hospitals that offer charity care. The Texas Comptroller's Office, for example, estimates that it costs taxpayers $1,000 per year to care for each uninsured Texan[30]. Thirteen per cent of private health insurance premiums are used to pay for the costs of care for the uninsured[31].

Sodexo does not offer affordable health care options to its food service and similar employees. Two-thirds of non-managerial Sodexo employees in the United States are not covered by health insurance offered by the company[32].

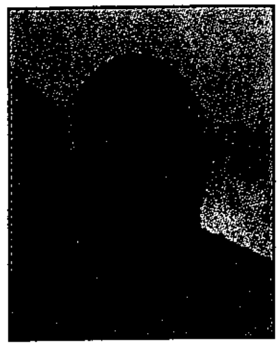
While Sodexo employees are offered health insurance options, the cost to the employee is often prohibitively expensive except for the most basic of plans. The HMOs that Sodexo offers in many individual markets generally have an employee cost of just over $120 per pay period for family coverage.

For a full-time, seasonal worker who earns $7.50 per hour, that means spending more than a quarter of his or her annual income on health care, leaving little left over for other basic necessities. Even for somewhat higher-paid, year-around workers making $10.01 an hour (who still earn just below the poverty line for a family of four), paying the employee premium would eat up 15% of their annual income.

Sodexo does offer some lower-cost plans, but the benefits can be very limited. For the BasicNet plan, for example, annual hospital costs are capped at $2,000, preventative care costs are capped at $100 per year, and outpatient surgery costs are capped at $400 per year.

The PPO option, while somewhat better, still has a maximum out-of-pocket cost of $5,000 per individual, which by itself could lead a family who already is hovering at or below the poverty line into bankruptcy if a serious medical issue arises.

Personal bankruptcies, home foreclosures, artificially higher taxes, higher premiums—these are the ills that can result from companies denying their workers quality affordable healthcare. All harm our communities.



"Sodexo pays me $10 an hour. I have three kids, all of my kids are in school, and that isn't enough money to take care of a family.

"I've been with Sodexo for 5 years, and I have been given only a 19 cent raise since I have been here. I need more to support my family."

Jeffrey Brooks
Food service worker, Warrentownship High School, IL

SPOTLIGHT ON NEW ORLEANS

Even in these tough economic times, there are few cities in the U.S. in greater need of good jobs and solid economic development than New Orleans. Five years after Hurricane Katrina, the city is still struggling to rebuild its infrastructure and housing stock. Nearly one in four New Orleanians lives below the poverty line—almost double the poverty rate for the country as a whole[33].

By 2009, rent in New Orleans was 40 percent higher than pre-Katrina[34]. The Greater New Orleans Community Data Center found that many workers in occupations with high labor shortages—such as food preparation workers and cooks—could not afford the fair market rent for even an efficiency apartment. Maintenance workers—another category with large vacancies—were generally found to be able to afford an efficiency or a one-bedroom apartment, but a 2-bedroom apartment remained out of reach for these workers, as well[35].

Sodexo—one of the largest employers in the region[36] and the market leader in school food service management in the New Orleans area —sets employment standards for well over a thousand of New Orleanians. Workers at Sodexo's non-union accounts in New Orleans make as little as $8.00 an hour. And although workers at Sodexo's unionized Recovery School District account generally fare better than their non-union counterparts, many of them—like Zarassa Harris—also earn wages low enough to qualify them for public assistance. Other Sodexo workers—like Tiyanna Landry—have faced difficult working conditions along with low wages at Sodexo.

"I started with Sodexo earning $9.[illegible] an hour, and eight years later I earn $9.26. My weekly take home pay is usually around $312. I have three children of my own, and also help take care of my sisters' children. My sisters and I are very close and I could never turn my back on them if they needed me.

After working all the way up until I went into labor with my youngest son, I came back early from my maternity leave. I needed the money and went back to work a little over a month after having my baby. I wasn't ready—I was exhausted.

My body wasn't healed yet, and I had to walk up to the 3rd floor every day—I was the only custodian on at night for 2 months. And they wouldn't give me the lead custodian pay even though I was doing all of the work.

I don't earn enough to take care of the kids, so I had to get creative. I knew that people liked my cooking, so I started to sell suppers to the community as a second job."

Tiyanna Landry
Sodexo custodian, Recovery School District
New Orleans, Louisiana

"As a mother of three kids, I'm having a really hard time making ends meet on Sodexo's wages. I make $11 an hour and take home up to $830 a week—but if I have to miss one or two days because I or my kids get sick my paycheck can be as little as $150.

I've been on food stamps for over a year now, but the food stamps don't cover all the food I need to feed my growing kids.

I live in a low income housing area. My rent is $300 a month, but my light and water bill is so expensive—around $400 more a month."

Zarassa Harris
Sodexo Custodian, Recovery School District
New Orleans, Louisiana

The company also plays a key role in providing essential services to the city's youngest generations. From kindergarten to graduation, many students' educational experiences are affected by Sodexo's services.

Unfortunately, Sodexo's affect on New Orleans' schools has not always been a positive one.

Sodexo has started serving "manufactured food in a bag" at almost all of the Recovery School District (RSD) schools. At the same time as Sodexo food service employees would like to cook fresh food for the students, but cannot, some RSD school principals have complained that the food was tasteless and that students and staff won't eat it.

Sodexo's understaffing of food service has resulted in complaints of food delivered late and food running out (as often as 2-3 times per week at one school). Morning staffing schedules sometimes required Sodexo employees to arrive only 15 minutes before food was to be served, and chronic lateness in serving lunch at one school had a clear effect on instructional time.

In 2008, at one RSD elementary school, black plastic was found in a Sodexo-provided drink carton. At a high school, students became ill after drinking tainted orange juice later found to have mold on the container, and students at another school were served spoiled milk.

As for the facilities work Sodexo does for RSD...according to some school officials, the contractor has been slow to act on a number of maintenance requests—including broken windows and doors—which could create security risks in the schools. The New Orleans Public Schools also complained of "sub-standard and inconsistent" service in cure notices sent to Sodexo before the district terminated their contract in the middle of the 2008-2009 school year.

CONCLUSION

Education in America is at a crossroads. The Great Recession has pulled the rug out from under many school districts' financial footing and forced school officials to lay off staff, eliminate programs, and even close schools altogether.

While Americans may not agree on exactly who caused the current recession, we can all agree on who did not cause the recession—our nation's school children, the ones who are bearing the brunt of our schools' budget cuts.

This report has detailed the high and sometimes hidden costs associated with doing business with multinational corporation Sodexo by focusing on three main issues: poverty wages, lack of access to affordable healthcare, and potential financial risks to your school program.

What can school board members do to rein in Sodexo-related costs?

First, honor a core American value: work should be rewarded. If you work hard for a living, you should be able to make a living. Support the thousands of Sodexo workers throughout the country today who are seeking to improve their working conditions.

Improved standards in Sodexo workplaces will allow workers in your community to raise themselves out of poverty and keep more of the profits they generate—benefiting the economy by keeping local dollars in local communities. This means fewer personal bankruptcies, fewer home foreclosures, fewer healthcare costs, and more spending at local businesses.

Also consider taking the following steps to make certain your school district is getting the best value and highest quality of service from Sodexo and its subcontractors:

Food service contracts:

Check out state model contracts. Most state agencies administering USDA food programs provide model contracts; many are available online. These contracts offer good examples of how to meet federal and state standards.

Protect your district from financial liability. Be sure to include language in your contract that protects the school district from financial liability if a food service management company fails to meet its obligations.

Keep track of monthly invoices and financial reports. Monthly reviews of reconciliation reports and invoices are a great way to help ensure your school meal program is receiving full value for rebates and USDA donated commodities.

Monitor: Actively monitor your contractor's performance on-site. Make sure you've seen for yourself that food quality, staffing levels, sanitation and customer satisfaction all meet the expectations outlined in your contract.

Learn more. An in-depth guide on negotiating school food service management agreements is available at **www.campaignforqualityservices.org**. This guide includes background and sample language for many key elements of a RFP and final contract, including rebates from vendors; USDA donated commodities; liability insurance; sample schedules for staffing and payroll-related charges; audits; financial reconciliation; meal counts; financial guarantees; state and federal regulation; indemnification; termination; non-performance; and training.

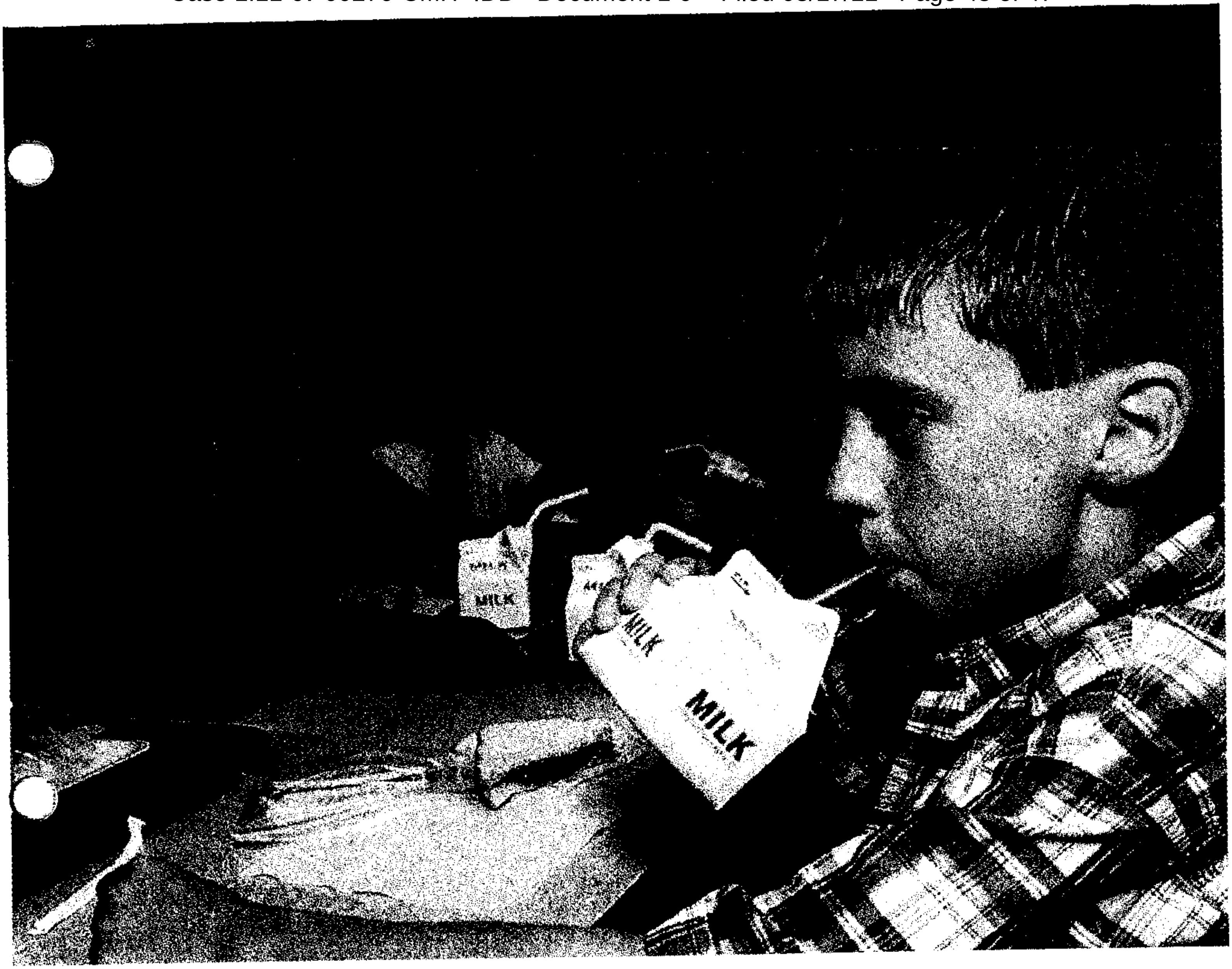
Facilities contracts:

Plan ahead. Make sure your district has developed a solid Facilities Master Plan, and that the terms of the RFP and final contract support this plan.

Don't get the short end of the stick. Establish minimum staffing requirements, and require that your contractor deduct from its monthly invoice an amount equal to any savings they enjoyed by understaffing. School districts should also consider mandating high standards for training and development.

Take your time. Leave plenty of time for final negotiations, read and review all final terms and conditions carefully, and consider choosing a back-up company in case the school district can not reach a satisfactory final agreement with its first choice contractor.

Monitor: Consider conducting a facilities audit to assess the condition of your district's facilities. Follow up with your facilities contractor to ensure they take care of maintenance needs identified through the audit. Actively monitor your contractor's performance on-site. Make sure you've seen for yourself that quality, staffing levels, sanitation and customer satisfaction all meet the expectations outlined in your contract.



It is not easy being an educational leader when economic times are tough. The decisions school leaders must make are extraordinary difficult. But if you closely examine all the costs associated with your school's relationship with Sodexo and you identify areas where there can be cuts, the decision will be easy. Either you choose Sodexo profits or children's welfare.

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